

Utica Gas & Electric FCU  
Charter # 2252  
Response to NCUA Advance Notice to Proposed Rulemaking

**Role of Corporates in the CU System**

It appears to me that the two main roles of the Corporates is to provide access to the payment system as well as access to liquidity. CU's, specifically smaller CU's, have no other access to the payment systems and therefore need a source such as the Corporates. Access to liquidity is even more important in these trying times. Although there are other avenues for liquidity, i.e. FHLB & commercial banks, it is necessary to have more than one source of good, relatively cheap source of liquidity. Should these two roles be separated, I don't think that is necessary.

I do not think legislatively limiting the field of membership for corporates serves a purpose. We are market driven society. Competition is the key for a market society. CU's will be members of the Corporates that best suit their needs. As the consolidation in the natural person CU's continues, so will the consolidation of the Corporates. The best Corporates will survive.

I am not sure exactly what the Corporates are allowed to invest in, but one thing is for certain, the investments that are taking the hits now were all AAA and AA rated. I do not believe the investment manager's of the Corporates were investing in anything riskier than their brethren on the banking establishments. I believe that the expanded investment authority should continue for those Corporates that can show that they have the expertise to manage a more complex investment portfolio. However, NCUA supervision should be onerous for those Corporates and annual requalification should be expected.

**Corporate Capital**

I believe that the Federal Home Loan Bank system's capital structure would be ideal for the corporates. The FHLB is also a cooperative that requires a capital infusion for membership and a separate capital infusion access to liquidity. The initial capital infusion is based on the CU's own capital. I am not concerned what the membership capital is based upon, but I do believe all members should have a capital stake in the Corporates. Secondly, if a CU needs to borrow funds for liquidity or for any other reason there is additional capital infusion that goes with it.

Core capital versus risk-based capital? Capital requirements should be based on the risk taken by the Corporates as it is with other financial institutions and required by BASIL I & II. Core capital is not indicative to the overall risk a Corporate is taking on its balance sheet.

## **Credit Risk Management**

As CU, Corporate or any other financial institution takes on additional credit risks, increased due diligence should be required. Relying entirely on the rating organizations has shown to be foolish. Complex assets should be rated based on the ability to repay. Financial institutions are required to perform cash flow analysis on their commercial loans and in light of our current circumstances; the same cash flow analysis should be performed on the most complex investments. The key here is what is considered a complex investment? The simple MBS issued by a GSE is not, in my opinion, a complex investment and therefore not subject to such scrutiny. Financial derivatives with embedded options would be considered complex and thus subjected a higher scrutiny. The NCUA has to determine what investments it considers complex, hopefully with the assistance of credit union investment managers.

## **Asset Liability Management**

I was very surprised to hear that the Corporates are not required to perform net interest income modeling and stress testing. I would be even more surprised if the Corporates were not actually performing these tests. Yes, net income modeling and stress testing should be required as well as a formal ALM policy and procedures.

## **Corporate Governance**

The Board of Directors of Corporates should be made up of members. However, some could be elected by the membership and others appointed by the NCUA or some other government agency. Furthermore, I think the directors should be fairly compensated and reimbursed for all expenses. The fact that you are being compensated should require a certain level of expertise. What level of expertise is to be determined by the membership and the NCUA

## **Other Issues**

I am of the believe that the Corporate Credit Union system is not at fault for our current problems. The fact that their investment managers purchased investments that had AAA and AA ratings and currently has none or little marketability is not their fault.